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CURRENT INTELLIGENCE WEEKLY SUMMARY



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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

SOVIET FOREIGN POLICY DEVELOPMENTS Page 1

The USSR's move to break off the Geneva disarmament conference is a direct expression of Khrushchev's position that serious negotiations with the United States are impossible as long as Washington pursues its present policies. There are signs that Moscow may also take early action to terminate the nuclear test ban talks. The Soviet leaders are seeking to offset negative reactions to the Geneva moves by reaffirming their "immutable" commitment to the policy of peaceful coexistence. [REDACTED]

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BLOC MEETING IN BUCHAREST Page 3

The meeting of bloc leaders in Bucharest last week reasserted formal solidarity without resolving the underlying differences between Moscow and Peiping. The communiqué signed in Bucharest on 24 June indicated that the two powers had to reach back to 1957 for an authoritative statement of bloc policy which both could accept. The communiqué merely outlined broad principles in very general terms, leaving specific issues open to varying interpretations. Soviet and Chinese editorial comment on the communiqué indicates that the two countries intend to uphold their divergent interpretations while maintaining the communiqué's pro forma expression of unity [REDACTED]

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FRANCE-ALGERIA Page 5

The meetings near Paris between French and Algerian rebel representatives, preliminary to formal talks on a cease-fire in Algeria, appear to have been characterized by hard bargaining, suggesting that eventual substantive talks will be difficult and prolonged. While French public opinion has welcomed the opening of talks, informed political leaders are almost unanimous in believing that De Gaulle's favored solution of an autonomous Algeria linked with France would actually lead to Algerian independence. Right-wing groups are organizing to disrupt any negotiated settlement. [REDACTED]

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THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****30 June 1960****PART I (continued)****VENEZUELA - DOMINICAN REPUBLIC Page 6**

The attempted assassination of President Betancourt on 24 June has further intensified Venezuelan antagonism toward the Trujillo regime. On 27 June the foreign minister advised the diplomatic representatives of the American republics that the captured ringleaders of the plot had disclosed Dominican involvement and that Venezuela was considering measures to take in response to this act of aggression. Venezuela will probably have recourse to the Organization of American States or to the UN before undertaking unilateral retaliatory action. [REDACTED]

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CUBA Page 7

Raul Castro's objective in visiting Prague is probably to obtain military equipment, including aircraft. The Castro regime, in its desire to free the country quickly from dependence on trade with the United States, is seeking swift implementation of its agreements with the Soviet bloc to exchange sugar and raw materials for industrial goods. The agreements--which include \$10,000,000 worth of East German, Czech, and Polish equipment for a variety of small factories--are unlikely to have an immediate effect on the Cuban economy, but both sides are hailing these developments as steps toward the diversification of the Cuban economy. [REDACTED]

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PART II**NOTES AND COMMENTS****SITUATION IN JAPAN Page 1**

With the US-Japanese security treaty ratified and Prime Minister Kishi ready to resign, the political crisis centers on the intense rivalry within the conservative ruling Liberal-Democratic party (LDP). Faction leaders have apparently agreed to choose Kishi's successor through negotiations and a caucus of LDP Diet members rather than in a full convention in order to reduce the chances of a party split. [REDACTED]

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PART II (continued)**REPUBLIC OF THE CONGO Page 3**

The inauguration of Joseph Kasavubu as President of the Congo appears to be the one major check on the country's leftist-inclined premier, Patrice Lumumba. Leaders of the Conakat--the anti-Lumumba party in Katanga Province--have moderated their threats of secession since Kasavubu's election. The Congo Government is likely to remain shaky, however, and in view of its present financial crisis may accept any Communist offers of economic aid. [REDACTED]

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CONFERENCE OF INDEPENDENT AFRICAN STATES Page 4

The Addis Ababa conference of independent African states from 14 to 24 June produced some new recommendations for increased cooperation among African nations, especially in the economic sphere. At the same time, the proceedings pointed up, to a greater extent than previous meetings, underlying frictions and divergencies of outlook and interests among the participants, particularly between the Arab and non-Arab Africans and between the militant pan-Africanists of Ghana and Guinea and more conservative leaders. [REDACTED]

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MIDDLE EAST DEVELOPMENTS Page 5

[REDACTED] President Shihab may be receptive to a greater role for the military in the government. Syrian resentment of UAR domination is reported near the danger point. A bread riot in Damascus on 21 June was the first open reflection of discontent among the lower classes. Both the Israelis and the [REDACTED] are said to be highly satisfied with Prime Minister Ben-Gurion's visit to Paris. Further French military assistance to Israel almost certainly was discussed. [REDACTED]

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PAKISTAN'S SECOND FIVE-YEAR PLAN Page 8

Pakistan's Second Five-Year Plan (1960-65), to be launched on 1 July, places heavy emphasis on achieving self-sufficiency in food production and on expanding educational opportunities. Although the regime will not reach its ambitious goals, it may make sufficient progress to impress the public favorably. [REDACTED]

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INDIAN FOREIGN EXCHANGE RESERVE DECLINE Page 9

India's foreign exchange reserves have dropped to \$343,900,000 since January, more than \$20,000,000 below the low points in 1959 and 1958, but thus far this decline

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has caused no major concern in New Delhi. There are counterbalancing factors in the situation which were not present in previous crises, but the low level of reserves, together with an expected further decline before the fourth quarter upturn, could have a dampening effect on the economy. [redacted]

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POLITICAL UNEASINESS IN THAILAND Page 10

After a protracted period of calm, the political atmosphere in Bangkok is once more unsettled by rumors of coups, of demonstrations by students and Buddhist clergy, and of possible attempts to kidnap high Thai officials. Premier Sarit views the rumors with considerable concern, and has taken additional security precautions during the past month. Sarit apparently suspects that some of his underlings in the ruling military group may be plotting again. [redacted]

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INDONESIA Page 11

Sukarno's installation of his appointed parliament on 25 June is another victory for him in his determined implementation of "guided democracy" in Indonesia. The Democratic League, which led the unsuccessful opposition to formation of the parliament, is not expected to comply with an order to dissolve or limit itself to approved activities. Although Sukarno has started maneuvering to replace selected officers in the army who quietly supported the league, Army Chief of Staff General Nasution does not appear to be in immediate danger of losing his post. [redacted]

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SOVIET DEMOBILIZATION PROGRAM Page 11

The USSR's two-year demobilization program to reduce the size of the armed forces by one third may now be getting under way in earnest, after six months of preparation. Personnel from all services reportedly are being demobilized, spokesmen have made predictions of the "disbanding" of units, and Western correspondents have witnessed, by invitation, formal deactivation ceremonies for one division. [redacted]

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EAST GERMANS HARASS WESTERN LIAISON MISSIONS Page 13

The Soviet commander in chief in East Germany has given assurances that incidents such as the recent assault by East German police on the British military liaison mission will not be allowed to recur. This incident was the most offensive of a series of harassing actions instituted by the East Germans following Ulbricht's sharp criticism on 20 May of alleged Western spying. The East Germans probably had Soviet permission to intensify surveillance

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of the missions, but Moscow may feel that the East Germans, determined to exercise their claims to sovereignty, acted with excessive zeal in this case. [REDACTED]

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RUMANIAN PARTY CONCLUDES CONGRESS Page 14

The third congress of the Rumanian Communist party, which ended in Bucharest on 25 June, adopted an ambitious economic program designed to "achieve socialism in the main" by 1965. The party exhibited remarkable stability at the upper echelons, the only significant change being the addition to the central committee of several top government leaders who for a number of years had not held comparable party posts. [REDACTED]

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GERMAN-FRENCH RELATIONS Page 17

The strong rapport between Chancellor Adenauer and President de Gaulle evidently continues, and there will probably be no significant change in the present French-German relationship as long as Adenauer heads the Bonn government. At lower levels in the German capital, however, resentment against Paris has recently been aroused by France's stalling on a request for easing some of the Western European Union restrictions on German rearmament. Evidence of apparent weakening of French support for certain aspects of Bonn's role in Berlin will also be disturbing to German leaders. [REDACTED]

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STUDENT AND LABOR UNREST IN SPAIN Page 18

Both the Franco regime and some Spanish student leaders have seen in the recent disorders in Turkey, South Korea, and Japan a possible example for demonstrations in Spain. Student agitation in Madrid caused the regime considerable trouble in early 1956, but most student groups are at present ill prepared for such action. In any event, the government appears determined to crack down on any outbursts. A more likely difficulty for Franco is

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extensive labor trouble in the next few months, should government measures prove insufficient to terminate the economic stagnation and thus reduce growing worker restiveness. [REDACTED]

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PART III**PATTERNS AND PERSPECTIVES****KREMLIN POLITICS Page 1**

Despite Moscow's uneven response to the U-2 affair prior to the summit and Khrushchev's intemperate behavior in Paris, there is little evidence to support speculation of deep political rifts within the Soviet party. Present indications are that Khrushchev is still the chief architect of Soviet policy. In addition to dealing with the U-2 problem and the summit, the central committee meeting on 4 May was notable for its public approval of important changes in the Kremlin command structure, changes dictated in part by the underlying problem of the succession to Khrushchev. [REDACTED]

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THE INDUSTRIAL CONCENTRATION ISSUE IN WEST GERMANY Page 8

The rapid growth of West German business in recent years has been accompanied by an increasing trend toward consolidation. The 1957 anticartel law tends to be permissive and regulatory rather than prohibitive. Despite occasional sharp criticism of cartels in West Germany, this trend will probably continue and will be further accelerated as competition increases within the Common Market. [REDACTED]

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ECONOMIC ASPECTS OF CHINA'S COMMUNES Page 11

The rural communes in China--as set forth originally in late summer 1958--were one of the most ambitious social and economic experiments of modern times. In late 1958, however, the regime began a slow process of moderating their more extreme social innovations and narrowing their economic responsibilities. The commune as an economic unit today is a far cry from the commune as originally presented. In practice, the real authority for agricultural production has shifted back to the production brigade--comparable to the collective farm--and the way in which production is organized differs little from the pre-commune Chinese system. Some of the aspects of communal living--the messhall especially--remain, but are not administered by the commune.

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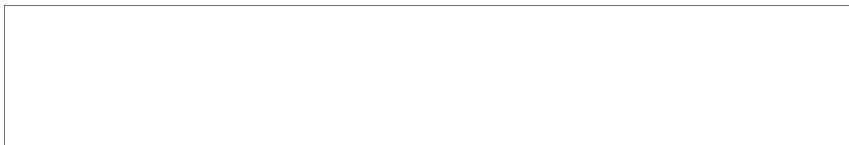
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In any event, the regime still clings tenaciously to the concept of the commune as showing the way to the Communist future. Thus the commune remains a point at issue between the USSR and China.

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PART I**OF IMMEDIATE INTEREST****SOVIET FOREIGN POLICY DEVELOPMENTS**

The USSR's move to break off the Geneva disarmament conference is a direct consequence of Khrushchev's position that serious negotiations with the United States are impossible as long as Washington pursues its present policies. There are signs that Moscow may also take early action to terminate the nuclear test ban talks. Khrushchev's intention apparently is to keep basic East-West negotiations in a state of suspension until the end of President Eisenhower's administration.

The timing of the break probably was determined by concern that the modified Western disarmament plan, which was to be presented later in the week, would undercut Soviet attempts to portray the West as opposed to any program for total disarmament. Moscow was also aware that the leading role of the United States in working out revisions in the Western position would complicate its effort to place primary responsibility on Washington for failure of the talks. Khrushchev took this line in his letters to the heads of the five Western governments on 27 June, in which he claimed that the negotiations had failed because the US carried over into the Geneva talks "the general line in international affairs" to which he attributed the summit collapse.

Moscow promptly sought to establish its own framework for UN consideration of the problem this fall. In his letter to the secretary general, Gromyko requested that the General Assembly take up the question of

"disarmament and the enforcement of the UN's resolution of 20 November on this subject." Moscow's major point over the past three months has been that the Western powers failed to abide by this UN resolution, which calls for steps to work out a plan of complete and general disarmament under effective international control.

Khrushchev's letters and Soviet delegate Zorin's closing remarks at Geneva suggest that the Soviet Union will seek to block any Western move to revive the negotiations in the ten-nation committee by provoking a dispute over the composition of the committee, possibly demanding Chinese Communist participation in any new disarmament talks. In his letter to President Eisenhower, Khrushchev stated that UN consideration of disarmament "will evidently bring up the question of the make-up of the committee." Zorin was more explicit, stating that the "question arises of inviting some other states to take part in the talks," and Soviet notes to all UN members made a similar point.

The Soviet position of virtually boycotting negotiations with the US may mean an early move to break off the nuclear test ban talks, although the Soviet delegation has privately indicated its desire for a long recess. Khrushchev would probably follow up such a move by reaffirming previous pledges that the USSR will not be the first power to resume nuclear weapons tests.

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Prior to the breakdown in the disarmament talks, the chief Soviet delegate to the test ban negotiations created the impression in a talk with Ambassador Wadsworth that the Soviet Government had strong doubts that anything could be accomplished until a new administration takes office in Washington--"and possibly not even then."

In the conference sessions, Soviet delegate Tsarapkin appeared intent on establishing a record of Western obstructions and evasions. On 27 June he promptly denied the British delegate's assessment that the talks last week resulted in clarifying respective positions on important issues. Tsarapkin claimed that the "state of affairs was completely unsatisfactory" and that if progress were replaced by "phony talk," the USSR would have to draw its own conclusions.

Tsarapkin also told a British correspondent, "Anything might happen if we go on wasting time here." At the informal meeting on 28 June, he made it clear that further progress was up to the West. He indicated a willingness to continue private talks, but he insisted on formal sessions as well.

The timing of the Soviet breakoff, Tsarapkin's privately expressing "extreme skepticism" of US intentions, the critical tone of Khrushchev's letters to President Eisenhower, De Gaulle, and Macmillan, [redacted] indicate an increased willingness to adopt a stiffer attitude toward the West and the US in particular and to accept probably adverse free world reaction.

Khrushchev accused both Macmillan and De Gaulle of

capitulating to American policy,

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The Soviet leaders are seeking to offset negative reactions to the Geneva move by reaffirming their "immutable" commitment to the policy of peaceful coexistence and disarmament. In a speech on 28 June to the graduates of military academies, Khrushchev stated that the USSR was going to the General Assembly "not to renounce the idea of disarmament, but...to exert even greater effort to this end." Gromyko's memorandum to the UN also included a statement that Moscow was prepared to participate again in discussions on disarmament "if they are business-like and fruitful."

In his final speech in Bucharest and in the address to the military graduates, Khrushchev reaffirmed the validity of the peaceful coexistence line, and Mikoyan denied in Oslo that the USSR had lost interest in the summit or had dropped its policy of peaceful coexistence. Mikoyan added, "This is not a policy of convenience due to tactical considerations, but the principled foundation of the foreign policy of the Soviet Union." [redacted]

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BLOC MEETING IN BUCHAREST

The meeting of bloc leaders which took place in Bucharest during the last week was apparently only able to reaffirm formal **solidarity** without resolving the underlying differences between Moscow and Peiping. The communiqué of the meeting signed in Bucharest on 24 June and published simultaneously by all bloc countries on 28 June indicated that the two powers had to reach back to 1957 for an authoritative statement of bloc policy which both could still accept.

During the steady development of the controversy in public statements and the equally steady deterioration of the much vaunted "unity of the socialist bloc," both sides consistently cited the 1957 declaration in substantiation of their positions. Since the previous agreement of all parties to this document did not prevent the current ideological squabble, a reaffirmation of its tenets seems a particularly unsatisfactory resolution of the problems.

The 1957 declaration was an attempt to contain the divergencies of opinion that bubbled up in the wake of Khrushchev's de-Stalinization campaign and to overcome the confusion in the international Communist movement that resulted. It is a carefully worded document which emphasizes the necessity for unity under the leadership of Moscow but allows for a limited degree of independence in thought and action. Recently, however, the Chinese, who apparently had played an important role in the drafting of the declaration which at the time was directed against the Poles and the Yugoslavs, have been pushing their independence to the point where it challenged Soviet leadership.

The communiqué of the present meeting merely outlines broad principles in very general terms, leaving specific issues open to varying interpretations. In tone and emphasis it is for the most part an expression of Soviet views, but Chinese reservations to those views receive some consideration. It endorses the Soviet insistence on the preventability of war, the need for peaceful coexistence in today's world, and the possibility of peaceful "transition to socialism."

The communiqué retains, however, the qualifiers to these theses which were included in the 1957 declaration and which the Chinese have been emphasizing to support their arguments: that there is a continuing necessity for vigilance, since imperialism's existence provides the "soil for aggressive wars," and that violent as well as peaceful forms of socialist transformation are still possible.

Soviet and Chinese editorial comment on the communiqué, by stressing those portions of the formula which they view as paramount, indicates that the two countries intend to uphold their divergent interpretations despite the communiqué's pro forma expression of unity. Two editorials, published on 29 June, maintain the core of the disagreement between them but appear to be attempts to play down the violence of comment that marked the previous exchanges. This suggests that the two reached a minimum agreement to mute the conflict, at least in public, in the interests of "socialist unity."

The Chinese have not been content, however, merely to publicly air their differences, but have lobbied for their point of view in meetings of Communist

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parties in various front groups. There is evidence that this particularly annoyed the Soviet Union.

since the agricultural conference in Moscow in February and the first since coordination of bloc economic plans for the next five years has been completed. In addition to the problem of ideological unity, therefore, problems concerning economic coordination and cooperation within the bloc may have been discussed.

Bloc trade plans for 1960 and prospective plans through 1965 call for expanded imports by the countries of Eastern Europe of raw materials, largely from the USSR, but there are indications that problems generated by a growing demand remain unresolved. Gomulka complained to the fifth plenum of the Polish party on 21 June that economic cooperation within the bloc is limited generally to foreign trade and some exchange in technology. Cooperation, he said, is "almost nonexistent in such an important sector as investment."

The Chinese have apparently been able to convince some Communist parties that their objections to Soviet views have some validity. Although most of the satellite leaders at the Rumanian party congress fully supported Khrushchev, the Albanian delegate's speech did not affirm Khrushchev's speech and carried overtones of Chinese views. Albania's comment on the recent communiqué also steers clear of endorsement of Khrushchev. The North Koreans, in some recent comment, have also shown a reluctance to wholeheartedly accept Soviet views and have directly quoted the Chinese.

Bloc Economic Problems

The Bucharest meeting was the first bloc-wide conclave

some East European countries are in serious economic straits because the USSR is either failing to maintain promised deliveries or is refusing requests for assistance to overcome unforeseen shortages.

Economic collaboration is being given in bloc propaganda as one of the reasons for bloc strength and as evidence of the "unshakeable unity" of the bloc. Khrushchev has on many occasions, however, urged closer collaboration and has displayed impatience with the progress made thus far. It is clear, even without reports of Soviet stinginess toward its neighbors, that much remains to be accomplished before a satisfactory division of labor is attained.

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FRANCE-ALGERIA

The recently concluded meetings between French officials and the Algerian rebel advance delegates to pave the way for formal talks on a cease-fire in Algeria appear to have been characterized by hard bargaining, indicating that substantive talks will be difficult and prolonged. Among reported rebel preconditions for a cease-fire are assurances of the impartiality of any referendum on Algeria's future and a reduction of French forces in Algeria if the rebels disarm.

Public opinion in France has welcomed the opening of talks as offering a chance for peace and is generally confident that De Gaulle can bring about some form of association between France and Algeria. Informed political leaders, however, are almost unanimous in believing that such a solution will lead to independence, and the cleavage between rightists and leftists in France is likely to deepen as the talks progress.

Former Premier Soustelle's new organization to promote a "French Algeria" is stepping up its efforts to disrupt any negotiated settlement. The group has the endorsement of well-known political figures from nearly all the major non-Communist parties, including former Resident Minister for Algeria Lacoste (Socialist), former Premier Bidault (Christian Democrat), former Defense

Minister and Premier Bourges-Maunoury (Radical), former Defense Minister Morice (dissident Radical), and chairman of the National Assembly Defense Committee Francois-Valentin (Independent). The group is allied with a similar group in Algeria.

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Marshal Juin's renewed criticism of De Gaulle's Algerian policy published on 27 June in Le Figaro could provide activist army elements with an alternative rallying point to De Gaulle. There are also rumors that Premier Debré may soon break with De Gaulle and side with the "French Algeria" group.

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progress toward a negotiated settlement would create a danger of civil war in France. One Radical concluded that "the best that can be hoped for, therefore, is the failure of the talks." Official statements by the center parties, however, have welcomed the opening of negotiations and expressed hope for the realization of self-determination. The principal labor organizations have taken similar positions.

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VENEZUELA - DOMINICAN REPUBLIC

The attempted assassination of President Betancourt on 24 June has further intensified Venezuelan antagonism toward the Trujillo regime. On 27 June the foreign minister advised the representatives of the American republics that the captured ringleaders of the plot had disclosed Dominican involvement and that Venezuela was considering measures to take in response to this act of aggression. His statement followed the release of a Venezuelan communiqué branding the Trujillo dictatorship a threat to hemisphere peace and "morally" unqualified for membership in the Organization of American States (OAS) and the UN.

ezuelan-Cuban relations--a trend accentuated by Cuba's substitution of Soviet oil for a part of its normal purchases from Venezuela.

Venezuela's firm adherence to the priority of the Dominican problem in the OAS is likely to influence other Latin American countries, particularly Colombia, Ecuador, Peru, and Bolivia, all of which have broken relations with the Trujillo regime since last April. Colombian President Lleras recently reiterated to the American ambassador in Bogota that action against Trujillo would serve as a precedent for action against the Castro regime.

The condemnation this month of the Trujillo regime by the OAS' Inter-American Peace Committee for flagrant violation of human rights--charges initiated by Venezuela--may encourage Venezuela to have further recourse to OAS channels as a means of eliminating the Trujillo dictatorship.

Venezuela has insisted for several months that the OAS should resolve the problem of the Dominican dictatorship before considering Cuba. This position, now strengthened by the attack on Betancourt, had been maintained despite a progressive deterioration in Ven-

Venezuelan and Dominican armed forces are now on an alert status, indicating that each is preparing to repel any attack, although the Venezuelan Government does not seem to be preparing to launch immediate retaliatory action for the assassination attempt.

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CUBA

Raul Castro, Cuba's minister of the armed forces, arrived in Prague on 26 June, ostensibly on a good-will mission but more likely to seek military equipment. Discussions regarding such materiel were probably held during the recent Cuban-Czech commercial talks in Havana. The Czechs may be prepared to provide some military equipment, possibly including the aircraft long sought by the Cuban regime.

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[redacted] Raul Castro is also to visit Moscow to negotiate a "nonaggression" pact. Such a pact would have significant propaganda value for the Castro regime, which continues its strident campaign charging the United States with acts of "economic warfare" and subversive plotting against the regime--charges echoed in Moscow's propaganda.

In its desire to free the country quickly from dependence on trade with the United States, the Castro regime is seeking swift implementation of its agreements with the Soviet bloc to exchange sugar and raw materials for industrial goods. Soviet petroleum and fertilizers have already been delivered, and contracts have been signed for about \$10,000,000 worth of East German, Czech, and Polish machinery and equipment to set up a variety of small factories. Deliveries of this material will begin this year and probably extend well into 1961.

Surveys of Cuban resources are being conducted by some of the bloc technicians in Cuba in preparation for proposed proj-

ects. General discussions have taken place for utilizing the \$100,000,000 Soviet credit, but no deliveries are to be made until 1961, when project reports have been completed.

Both sides hail these developments as the first steps toward diversifying the Cuban economy. The experience of other underdeveloped countries with Soviet bloc trade and aid, however, suggests that Havana's expectations of immediate benefits will not be fulfilled. The bloc's ability to conclude agreements rapidly is an attractive feature in its economic programs, but immediate results are rarely attained, and the protracted implementation period often tempers initial enthusiasm. As the bloc works toward long-term cooperation as a means of maintaining its position of influence, Cuba will probably have to qualify its extravagant hopes.

Meanwhile, the situation in the politically important University of Havana is chaotic. Faculty members are being purged by Communist-dominated student groups, and Communist "goon squads" almost control the university. Anti-Communist student leaders are reportedly in hiding. The Castro regime may use the crisis to assume direct control of the university.

The seizure on 29 June of the \$21,000,000 Texaco refinery may presage seizure of the country's other two major refineries, both foreign owned, which have also refused to process Soviet crude oil. The companies have ceased importing petroleum from Venezuela, Cuba's

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traditional source, thus in effect making Cuba dependent on the Soviet bloc for its oil needs. Oil has been coming from the Soviet Union since April, and a contract was signed in Moscow on 18 June under which Cuba is to receive from the Soviet Union roughly a quarter of its petroleum needs.

The Soviet bloc could provide Cuba with all its petroleum requirements

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The Castro regime is planning the rationing of oil use until large new shipments of Soviet oil arrive in Cuba.

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PART II**NOTES AND COMMENTS****SITUATION IN JAPAN**

With the US-Japanese security treaty ratified and Prime Minister Kishi ready to resign, the political crisis centers on the intense rivalry within the conservative ruling Liberal-Democratic party (LDP). Party leaders, to reduce the chances of a party split, have apparently agreed to choose Kishi's successor through negotiations among faction heads and a caucus of LDP Diet members rather than in a party convention. Leftist groups retain their capability for violence and plan to continue their united opposition to conservative government and the US alliance.

The LDP maneuvering involves three major factional groupings. One is headed by Kishi and his younger brother, Finance Minister Eisaku Sato. Another grouping consists of factions led by Hayato Ikeda, minister of international trade and industry, by Bamboku Ono, party vice president and long-time political boss, and by Mitsujiro

Ishii, a party elder; all three men have supported Kishi. The third group, opposed to Kishi's leadership, includes factions headed by Ichiro Kono, Takeo Miki, and Tanzan Ishibashi, none of whom holds a position in the present government.

Ikeda, Ono, and Ishii are contending for Kishi's mantle. Former Prime Minister Yoshida, working in the background for agreement on a single candidate, is supporting Ikeda. Ikeda, regarded as front runner, is reported also to have the support of Kishi and Sato, although no definite commitments have been made. Kishi appears to believe that a government under Ikeda would be stronger and more lasting than one under Ishii or Ono, which would necessarily be an interim regime. Regardless of who heads the new government, observers feel that a general election will be called, probably in the fall.

The leftists--the Socialists, the Sohyo labor federation, and



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the extremist student organization, Zengakuren--and part of the press strongly oppose Ikeda because of his pro-Western and militantly anti-Communist position. This hostility is encouraging his rivals, and intra-party opposition to him has increased. Ono and Ishii have joined forces to block his succession, and they claim to have the support of party members who, rather than have another prime minister with a bureaucratic background, would prefer to see politicians head the government. At present, however, this group does not appear to have sufficient strength to assure success for its choice.

Some LDP members fear that a bitter party struggle might force the faction led by Kono, Miki, and Ishibashi to accept Socialist support for the election of Kenzo Matsumura, a leading member of the Miki faction, as an interim prime minister. The Socialists have hinted that for tactical reasons they might support Matsumura if he appeared to have any chance of being elected. Kishi and Sato would like to discipline these intraparty dissidents for their lack of cooperation during the treaty debate, but other party members fear such action would drive them into an agreement with the Socialists.

Another possible solution to party dissension now reportedly being considered by LDP leaders is a proposal under which the party presidency and the prime ministership would be held by different individuals. Previously it had been considered necessary that the prime minister also head the party in order to maintain discipline. Observers feel that division of the offices would increase intra-party bickering and weaken the government.

The Japanese Socialist party (JSP), meanwhile, has already begun a campaign to dis-

credit any new LDP head who cooperated with Kishi, making clear its intention of continuing opposition to any effective conservative government. The Socialists have indicated they may end their boycott of the Diet in order to vote on the next prime minister, but have publicly reaffirmed their opposition to any candidate involved in the Diet's "forced" approval of the security treaty. The moderate Democratic Socialist party (DSP) has announced that its members intend to return to the Diet and to nominate DSP Chairman Suehiro Nishio.

The Socialists are laying the groundwork for a drive to neutralize the security treaty by making it difficult for the US to maintain its bases in Japan. Although leftist demonstrations have diminished since the treaty became effective on 23 June, the nationwide People's Council Against the Security Treaty continues to plan protests. A major leftist purpose in keeping demonstrations alive is to gain further public acceptance for them as a legitimate form of political action, which could be used against any future government.

Leftist leaders active in the antitreaty council are considering steps to reorganize it under a new name and to utilize it as a new united front to intensify leftist electioneering in rural areas during the anticipated general election campaign. Over a longer term, they hope to maintain this front to extend pressure for abrogation of the treaty, restoration of relations with Communist China, and negotiation of a peace treaty with the USSR. The Socialists are reportedly bent on waging a major campaign to capitalize on recent successes and to increase the number of their candidates in the elections.

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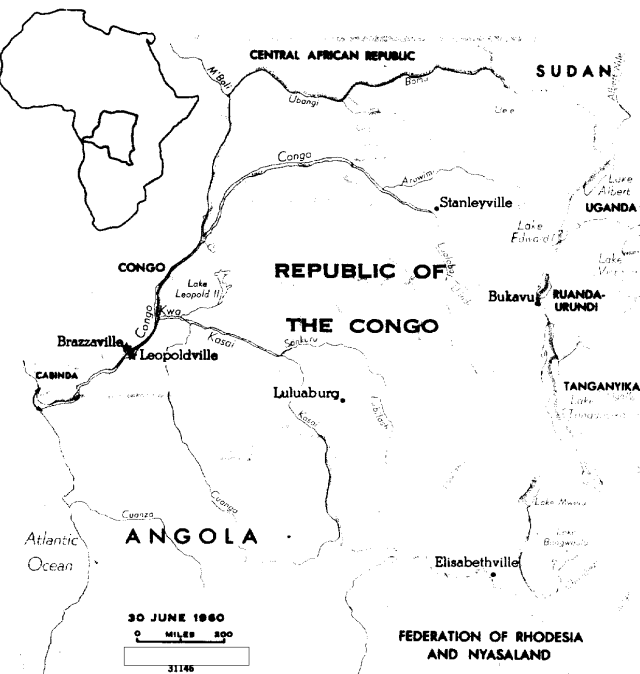
REPUBLIC OF THE CONGO

The inauguration of Joseph Kasavubu as President of the Congo--despite demonstrations in Leopoldville by his opponents--appears to be the one major

American officials, have deplored the failure of the United States to "check" Communist influence in the Congo.

Available evidence indicates that Lumumba has accepted funds from the Communist party. Among the ten secretaries of state he has appointed, five appear to be pro-Communist. Communist China--which "recognized" the Congo on 27 June prior to its independence--plans to establish a news bureau in the Congo shortly. In view of its present financial crisis, the Congo may accept any Communist offers of economic aid.

In spite of the election of the popular but erratic Kasavubu as chief of state, the reins of power--except for the right to dissolve par-



check on the country's leftist-inclined premier, Patrice Lumumba. Leaders of the Conakat--the anti-Lumumba party in Katanga Province--have moderated their threats of secession since Kasavubu's election. In contrast to Lumumba's action in appointing a leftist cabinet, Kasavubu's inaugural speech included an observation on the Congo's continuing need for foreign capital and an expression of concern regarding the perils of "dangerous and suspect forces"--probably an allusion to the Communist bloc.

Although the new Congo state has committed itself to a policy of neutralism, several Congolese politicians, including Lumumba, are believed to be receiving financial support from the bloc. Anti-Lumumba spokesmen, in conversation with

liament--are controlled by Premier Lumumba. The cabinet is composed largely of members of Lumumba's National Congo Movement party; representatives of minor parties, according to the American Consulate General, are little known and likely to be dominated by Lumumba. The premier--who took the defense portfolio himself--also controls the Belgian-officered Force Publique, the main security force in the Congo.

In Katanga Province, Conakat leader Moise Tshombé has withdrawn for the time being his threat to set up an independent Congo state. His attitude appears to stem from recognition that his party now controls the provincial legislature and from realization that he may be better able to influence events in the Congo through the threat of secession than through the act itself.

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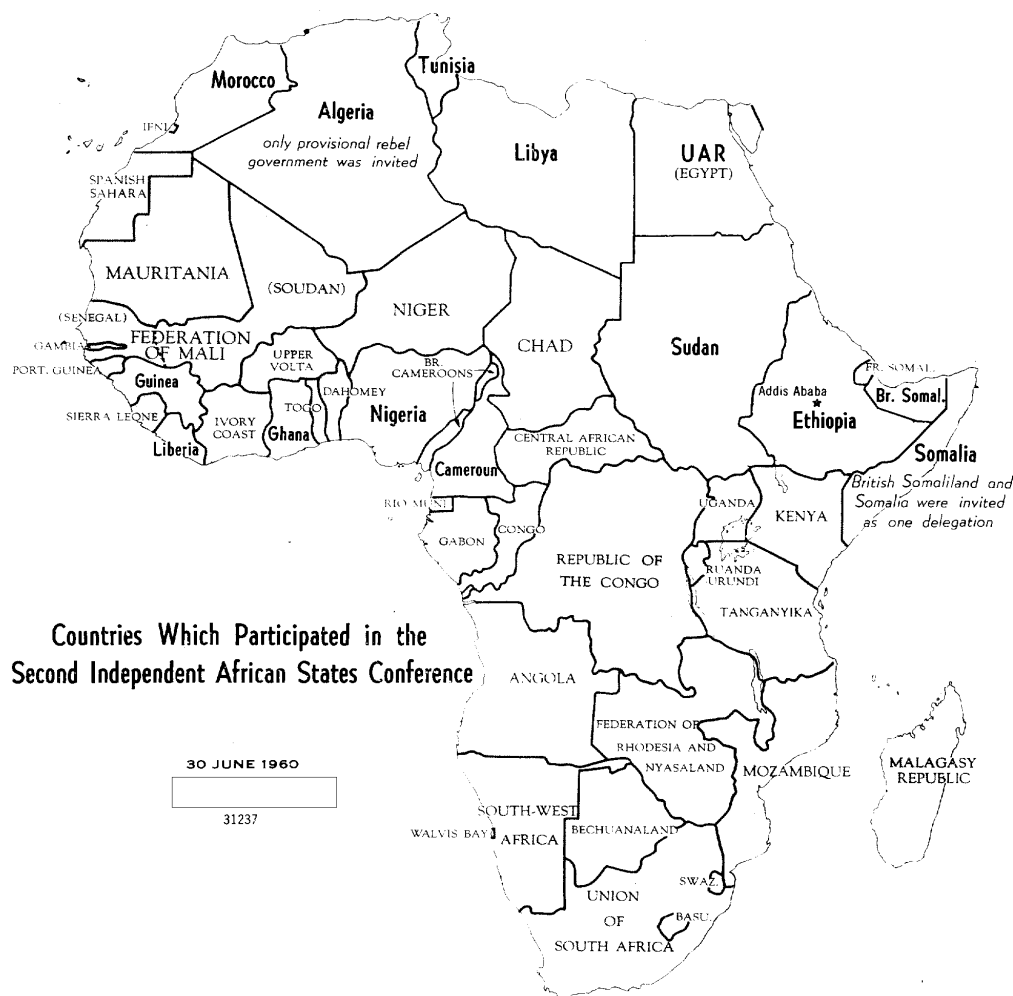
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CONFERENCE OF INDEPENDENT AFRICAN STATES

The conference of independent African states which convened in Addis Ababa from 14 to 24 June produced some new recommendations for increased cooperation among African nations, especially in the economic sphere. At the same time, the proceedings pointed up to a greater extent than previous meetings underlying frictions and divergencies of outlook and interests among the participants. As more new states emerge from

colonial rule to join the fast-growing "African bloc," these differences may increasingly inhibit cooperation, except on issues of broad emotional appeal to Africans.

Delegations--mostly headed by cabinet ministers--represented 12 independent or about-to-be independent African states and the Algerian rebels' provisional government. Togo, Mali, the Malagasy Republic, and the

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Congo (Belgian), although invited, did not attend, apparently preoccupied with domestic matters. African political leaders from most dependent areas and the Union of South Africa were present as official observers--a status denied to non-Africans--and lobbied actively for conference support.

After 11 days of slow-moving discussions, the conference adopted 15 resolutions, all generally moderate, which reflected the "African position" on a wide variety of subjects. The statements on Algeria, which were formulated after the rebels accepted De Gaulle's overture for cease-fire talks, were particularly conciliatory, although aimed at bolstering the rebels' negotiating position.

South Africa's apartheid policy and its refusal to place the mandated territory of South-West Africa under UN trusteeship inspired the strongest and most specific recommendations for concerted action. These included a call for a diplomatic and a broad economic boycott of the present South African Government and an announcement of the Africans' intention to institute new proceedings on South-West Africa in the International Court of Justice.

Wide-ranging views on African unity were narrowed in the final resolutions to recommendations for the early establishment of an all-African economic council, joint development and commercial banks, and special intra-African customs

and communications arrangements. Such proposals reflect the desire of most Africans to assert their economic as well as political independence. The conference took no action toward the creation of a permanent inter-governmental African organization.

More significant than the conference's formal pronouncements were the numerous indications, both in public and behind the scenes, of friction and disunity among the participants. Cameroun--represented at an African gathering for the first time by its legitimate government--revealed its bitterness toward Guinea for supporting dissident Camerounian elements. Nigeria's chief delegate disparaged African political union as "premature" and warned against the danger of a "messiah" with a mission to lead Africa--an unmistakable criticism of Ghana's ambitious Nkrumah. Ghana, in turn, maneuvered successfully to deprive its regional rival, Liberia, of an exclusive role in the projected court action against South Africa.

The UAR contributed to the disunity between Arab and non-Arab Africa by its largely unsuccessful attempt to win support from Black African delegations for its anti-Israel campaign. The rivalry between Morocco and Tunisia flared up when their delegations submitted competing bids for the next African conference. The question of the site of the next conference was unresolved.

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MIDDLE EAST DEVELOPMENTSLebanon

The third round of the Lebanese parliamentary elections, held on 26 June in predominant-

ly Moslem North Lebanon, contained no surprises, nor did it appear to further hopes of either pro- or anti-UAR extremists. Former Prime Minister Karami won

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an easy victory in Tripoli, although a Baathist aspirant for office nearly upset one Karami-supported candidate.



ADIL SHIHAB

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The strongly anti-Nasir Social National party lost virtually its last chance to be represented in parliament; an alliance between former President Chamoun and moderate Christian Raymond Edde was victorious over the government-backed list of the Maronite Phalange, which is led by Pierre Jumayyil. One Communist fellow traveler was elected in Tripoli, and three more blatantly pro-UAR candidates won over moderates there. Only 15 of the new parliament's 99 deputies remain to be elected on 3 July in the Biqa Valley.

President Shihab might be receptive to a greater role for the military in running the government.

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public. Shihab's high opinion of himself is revealed by a recent series of postage stamps with his portrait in full mili-



President Shihab on Lebanese Stamp

tary uniform, most unusual in Lebanon.

Another indication of political instability is widespread public discontent with President

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Shihab and the army. Responsible Lebanese of all shades of opinion are reported concerned over the blatant intervention in the elections by the army, which in past elections remained neutral; by this role in the country's politics, it had attained a large measure of respect and trust.

UAR-Syria

Syria's deteriorating economic situation has sparked the first overt reflection of discontent among the Syrian lower classes. A bread riot in Damascus on 21 June brought into focus the effects of the drought and the worsening economic situation, which Syrians blame on Egyptian domination. One person was killed when troops repressed the rioters, and there were open complaints during the incident concerning the money being spent on Nasir's political organization, the National Union, and on television stations at a time when Syria is suffering from a wheat shortage.

Antagonism toward Cairo's control exists among all classes of the Syrian populace--landowners and peasants, the army, merchants, intellectuals, Communists, and anti-Communists. This discontent has reached the point where anti-Egyptian rioting could break out. Crop failures, import restrictions, the threat of nationalization, and the lack of foreign exchange have all contributed to the alienation of every major segment of Syrian society. Egyptian domination in the army and administration is an additional grievance.

Suppression of anti-Egyptian demonstrations by Cairo-controlled security forces could lead to a general strike throughout the country--several of which in the past have paralyzed nearly all activity--and

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Moreover, although the Egyptians control the armed forces, it is questionable whether Syrian troops would obey orders of Egyptians or pro-Egyptian officers to fire on Syrian crowds.

Israel-France

Israeli Prime Minister Ben-Gurion's official visit to Paris in mid-June proved highly satisfactory for both the French and the Israelis, according to American Embassy [redacted] Previously De Gaulle had sought to disengage France from its close relationship with Israel in favor of better relations with the Arab States, with the immediate aim of facilitating a settlement in Algeria.

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Ben-Gurion saw De Gaulle twice and reportedly was warmly welcomed both officially and privately. The major subject of their talks was the post-summit world situation. De Gaulle is said to have indicated that France would work for the recognition of the importance of Israel and other "peripheral states" in planning Western grand strategy, commenting that as a Western state, Israel has much to offer, particularly in Africa. Ben-Gurion cited the success of Israeli aid programs in Burma, Ceylon, and Ghana and reiterated Israel's thesis that its technicians could play a large and effective role on behalf of the West because, he claimed, they know how to deal with Afro-Asian peoples.

The Israelis tentatively explored with French ministers, but not with De Gaulle, the possibility of some form of Israeli economic link with Europe. Israel has been discouraged by members of the Common Market over

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the possibility of early association with the organization.

Ben-Gurion emphasized Israel's vulnerability to air attacks from the UAR, but he made no specific request to De Gaulle for military aid. However, French military assistance almost certainly was discussed at a lower level between representatives of the two

countries.

agreement for the sale of French Mirage-R3 supersonic, delta-wing aircraft to Israel; this had been reported earlier in the press. The type, number, and date of delivery are unknown, but it is unlikely that the Israelis will receive any of the new jet fighters for several months.

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PAKISTAN'S SECOND FIVE-YEAR PLAN

The Pakistani military regime on 1 July will undertake for the first time a comprehensive economic development program drafted under its own supervision. The Five-Year Plan (1960-65), which succeeds a plan developed under the old

plete fulfillment of the plan would increase per capita income only about 10 percent.

Self-sufficiency in food production appears to be the priority target. An increase of 20 percent in food production would be required if Pakistan were to end its dependence on imports and meet the requirements of its growing population. In an attempt to slow population growth and prevent it from absorbing increases in production, the government is launching an ambitious program to educate the people on the need for family planning, and it has already distributed contraceptive pills to dispensaries in many parts of the country.

Other agricultural production is also to be expanded, and industries using Pakistani raw materials such as jute, cotton, and sugar are to be developed further. President Ayub has also announced that he hopes to build two steel mills.

PAKISTAN: TOTAL DEVELOPMENT ALLOCATION

MILLIONS OF DOLLARS

Agriculture (including irrigation and drainage)	28	\$1,161
Industry, fuels, and minerals	22	\$876
Public utilities	24	\$934
Education, health, manpower and social welfare	14	\$569
Commercial and residential buildings	8	\$307
Inventories	3	\$105
Basic Democracies (local government councils)		\$38
		00 PERCENT OF TOTAL

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parliamentary government, involves a total planned investment of about \$4 billion and is designed to raise national income by 20 percent. However, with the increase expected in population by 1965, even com-

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Education, particularly in the technical fields, is also to receive major attention. The percentage of children attending elementary schools is to be raised from 42 percent in 1960 to 60 percent in 1965.

The regime has recognized that to carry out the Second Five-Year Plan it must impose additional taxes, control inflation, secure the cooperation of the people, and get larger amounts of foreign aid than in the past. These conditions would seem to make significant gains problematical at best, although the regime may obtain some public credit if it demonstrates a determination to overcome at least some of its difficulties.

Of a total investment outlay of about \$4 billion, over \$1.3 billion is to come from foreign aid and \$315,000,000 from foreign investment. This means that Pakistan is counting on a 30-percent increase in foreign aid. The United States has thus far provided over 80 percent of Pakistan's foreign aid.

Domestic opponents of the regime have recently become bolder in their criticism of the government, and, if an atmosphere of political tension should develop, future accomplishments in the five-year plan might be largely overlooked.

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INDIAN FOREIGN EXCHANGE RESERVE DECLINE

The decline by \$103,000,000 in India's foreign exchange reserves since January has again focused attention on this chronic Indian difficulty. The level of foreign exchange reserves--\$343,500,000 exclusive of gold required for currency backing--is more than \$20,000,000 under the low points reached in later months in both 1959 and in 1958. At the moment, however, the loss does not appear to be causing major concern.

A partial reason for the lack of alarm such as occurred during the 1958 foreign exchange crisis is that the decline does not threaten the Second Five-Year Plan (1956-61). The foreign exchange portions of the plan's development costs appear largely, although not completely, assured. A second factor in the decline is reduced export earnings as a result of

the harvest cycle; exports of tea, jute, oils, and oil seeds--the nation's principal foreign exchange earners--are traditionally low during the second and third quarters of the year.

Still another factor in the decline has been New Delhi's determination to maintain its schedule of repayments to the International Monetary Fund (IMF). A large portion of the 1960 decline results from such a payment during the first quarter. An additional repayment of \$22,500,000 scheduled for mid-June has caused a further decline and raises to \$122,500,000 the total of Indian repayments to the IMF since October 1959.

Purely statistical comparisons with previous years are likely to be misleading, for some factors in the Indian picture have improved since 1958.

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Imports remain curtailed, while domestic production and industrialization are expanding, the government's dollar balances in the United States have risen to about \$100,000,000, and repayments to the IMF have reduced the nation's external debt.

Nevertheless, India's continuing heavy dependence on foreign aid and the prospect that the already low level of foreign exchange reserves will undergo a further decline before the seasonal upturn in the fourth quarter could have a dampening effect on the economy.

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POLITICAL UNEASINESS IN THAILAND

After a protracted period of calm, the political atmosphere in Bangkok is once more clouded by rumors of coups, demonstrations by students and the Buddhist clergy and possible attempts to kidnap Premier Sarit, the King, or other high Thai officials. Many of these rumors are probably a natural outgrowth of Thai concern over recent developments in South Korea, Turkey, and Japan, and may lack substance. Sarit, however, clearly views them with considerable concern, evidenced by the heightened security precautions he has taken during the past month.

Sarit apparently has been unable to pinpoint the source --or sources-- of any plotting against him, but he almost certainly suspects that some of his underlings in the ruling military group may be involved. He is known to be contemptuous of the coup-making potential of the adherents of former Premiers Pridi and Phibun and former Police Director General Phao, all three of whom have been in exile for a number of years. It is hardly likely, moreover, that Sarit would seriously believe that Thai-

land's small Communist movement is a real threat to him, even though he tends to blame the Communists in his public statements for any trouble that develops.

Until now, intrigues against the premier within the military group have not developed to the extent they did not in past Thai regimes, partly because of Sarit's demonstrated willingness to take strong counteraction.

the premier's unexpected durability under a heavy workload may already have convinced those who aspire to succeed him that, if they are to come to power in the reasonably near future, they will have to work actively, if discreetly, for his overthrow.

Firm indications of any such plotting are lacking, but elements within the military group may have deliberately planted the recent rumors in order to cause Sarit to lose face by taking overelaborate security precautions or even to serve as a cloak for their own machinations.

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INDONESIA

Sukarno's installation of his appointed parliament on 25 June is another victory for him in his determined implementation of "guided democracy" in Indonesia. Of the 283 appointees, 270 were actually installed; most of the absentees apparently did not refuse membership in the new rubber-stamp legislature but were away from the country or absent for other legitimate reasons.

Sukarno's only concession to the considerable opposition that developed during his two-month absence abroad over creation of the new parliament was the appointment on 17 June of 22 additional non-Communist members. With this change, Communist strength in the parliament was slightly reduced to 22 percent. Confirming earlier rumors that parliament would not be a voting body, Sukarno announced that he expects members to reach decisions "by consensus." When agreement cannot be reached, the appropriate cabinet minister will make the final decision.

The Democratic League, which led the opposition to

formation of the parliament, has been told by First Minister Djuanda, on Sukarno's orders, to dissolve or to limit itself to approved activities. The league has not openly refused but is not expected to comply. In that event, it would probably be banned under the terms of a 1959 presidential decree regulating political parties.

Presidential action has also begun against army leaders who quietly supported the league. The first target is Colonel Sukendro, deputy chief of staff for special affairs, who was the army's principal liaison officer with the league. Sukarno reportedly has given Sukendro the choice of accepting the ambassadorial post in Rumania or going to the army staff college in Bandung. Sukendro told the American Army attaché that in the near future Sukarno will probably try to replace three other officers who support army Chief of Staff General Nasution, but that Nasution and Vice Chief of Staff Gatot Subroto are not in immediate danger of losing their posts.

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SOVIET DEMOBILIZATION PROGRAM

The first public move to implement the announced two-year program for a one-third reduction in Soviet military

manpower was made last week with the deactivation, witnessed on invitation by a group of Western correspondents,

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of a heavy tank division from the Minsk Military District and the departure of a large part of its personnel. This may not have been the first sizable unit to be demobilized. According to an April statement of the Soviet military attaché in Tehran, a division from the Moscow region was then being "disbanded."

A signal battalion and possibly an antiaircraft brigade are believed to have been sent back to the USSR from East Germany. This transfer may not mean deactivation of this particular unit, but may reflect a redeployment resulting from the deactivation of similar units elsewhere.

Moscow can also be expected to effect manpower cuts by individual discharges, by a reduction of the 1960 draft, and possibly by shortening the term of service. There have been frequent references in the Soviet press recently to groups of discharged servicemen arriving at various points in the "new lands" area. According to an article in Soviet Russia of 28 June, 145,000 demobilized servicemen will go to Kazakhstan to work in agriculture, 18,000 to farms in the Altai territory of southern Siberia, 9,000 to the Kuznetsk oil fields of Siberia, 4,000 to construction work in western Siberia, and 4,000 to the Murmansk area.

Reports from Kamerovo, near Novosibirsk, suggest that the attitude of the local populace toward these new arrivals sometimes falls short of patriotic ardor. The residents reportedly ob-

jected to the presence of the servicemen in areas where housing shortages were already acute.

Difficulties with housing and with personnel placement may account for the near secrecy with which the USSR conducted the first phase of the "demobilization." The first discharges probably constituted a "trial run" to test the capacity of the Soviet civilian community to absorb them. Despite local frictions, the government now may proceed with confidence and attempt to take full advantage of the propaganda value of the "unilateral disarmament."

While it is difficult to estimate the number of personnel released since Khrushchev's speech of 14 January announcing the program, it seems clear that the rate of discharges must be greatly accelerated if the promised reductions are to be achieved within the time limit. Large numbers of servicemen will have to be made available within the next few weeks if they are to play a significant role in getting in the 1960 grain harvest.

If the military has completed preparations for an orderly release of all personnel affected, the next few weeks may see further unit deactivations and the early release of many of the trainees due for discharge in October. The rate of reduction during the last few months of 1960 and throughout 1961 will be strongly influenced by the size of the autumn draft call-up. (Concurred in by ORR)

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EAST GERMANS HARASS WESTERN LIAISON MISSIONS

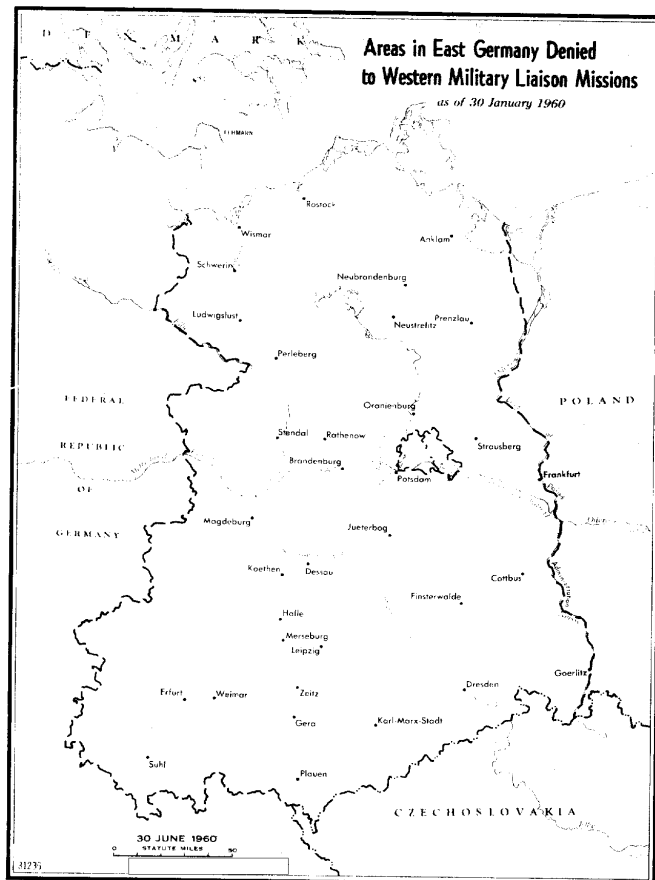
The East German regime in recent weeks has begun harassing Western military liaison missions accredited to the Soviet commander in chief in East Germany. This campaign appears to have been sparked by party boss Ulbricht's castigation of the missions, as vestiges of World War II, in an address of 20 May attended by Khrush-

chev. The circumstances of the campaign suggest that the East Germans received Soviet authorization to intensify

their surveillance of the missions but, in an effort to assert their "sovereignty," went further than Moscow intended.

On 21 June, East German secret police physically assaulted the chief and several members of the British military mission who were traveling in an unrestricted area near Potsdam. The East Germans smashed the window of a British car, injured the driver, and seized equipment belonging to the mission. The East Germans went so far as to prevent the British from obeying the orders of a Soviet liaison officer to follow his car. Only after the liaison officer returned an hour later were they allowed to go. Earlier in June, East German police and "civilians" had harassed both French and American mission personnel, forcing their cars to halt, delaying them for long periods of time, and threatening them with weapons.

The British commander in chief sent a formal protest to his Soviet counterpart, Col. Gen. Yakubovsky, concerning the 21 June incident. In response, the Soviet commander in chief, although cool and correct, took a conciliatory attitude. He told the British he would investigate the matter and take measures to see, not only



shchev. The circumstances of the campaign suggest that the East Germans received Soviet authorization to intensify

although cool and correct, took a conciliatory attitude. He told the British he would investigate the matter and take measures to see, not only

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that such an incident was not repeated, but that the mission would be allowed to "fulfill its role" strictly in accordance with the existing British-Soviet agreement.

Yakubovsky's attitude may be an indication that Khrushchev's promise in his East Berlin speech--to maintain the existing situation in Germany until a heads-of-government meeting--carries with it a decision not to change the status quo of the military liaison missions, although it does not preclude further harassment.

In any case, the USSR, by taking a conciliatory attitude toward the British, may hope to settle an incident which might seriously interfere with its hopes of gaining eventual diplomatic recognition of the Ulbricht regime.

The extreme zealousness of the East Germans appears to be an effort to compensate for their disappointment at the postponement by Khrushchev of the signature of a separate peace treaty

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RUMANIAN PARTY CONCLUDES CONGRESS

The third congress of the Rumanian Communist party, although overshadowed by the concurrent meeting of bloc leaders, adopted a program designed to expand rapidly the economic base built during the past five years with a view to "achieving socialism in the main" by 1965. Rumanian speakers took their cue from Khrushchev's extravagant compliments to party First Secretary Gheorghiu-Dej and his central committee and echoed the Soviet premier's predictions for a glowing future.

During his five-hour address at the opening session, Gheorghiu-Dej outlined the major features of an ambitious Six-Year Plan (1960-65) which calls for more than doubling output in such critical items as steel and agricultural production. In addition, he made it clear that the USSR will continue to act as the main supplier of vital industrial raw materials, such as coke,

coking coal, and iron ore. Dej gave only a broad outline of the much-publicized 1960-75 long-range economic development program. Long-range satellite economic plans may be awaiting a draft of the USSR's 20-year plan expected to be presented at the Soviet 22nd party congress in 1961.

After a number of years in which many top government leaders did not hold comparable party posts, almost all key government officials were named to the central committee. This change, together with the recent party membership drive, is probably designed to reinforce party control over all aspects of Rumanian life. The ministers of trade, forest economy, and consumer goods, as well as the chairman of the State Planning Commission, were added to the central committee, and Ion Gheorghe Maurer, the chief of state, was elected to the politburo.

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Only four of the 14 ministries are not represented on the central committee. One of these is the Ministry of Heavy Industry, thought to have been

the province of Deputy Premier Gherasim Popa, who was dropped from the committee. This suggests that a reorganization of heavy industrial production may

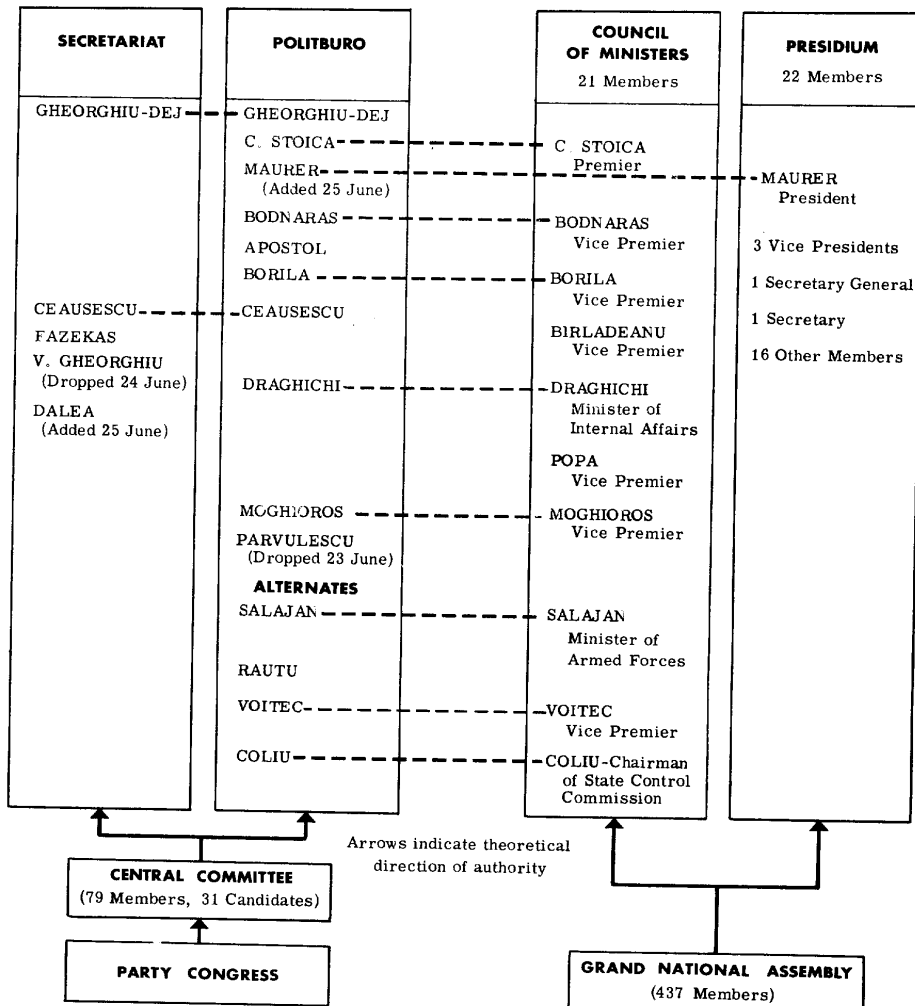
RUMANIA**PARTY AND GOVERNMENT ORGANIZATION**

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PARTY 807, 140 Full and Candidate Members
March 1960

GOVERNMENT

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be imminent in order to bring about decentralization under tight party control.

No major changes took place in the upper echelons of the party. Vladimir Gheorghiu, who had not been mentioned since last December, was replaced on the central committee secretariat by Mihai Dalea, who is now ambassador to Moscow and who previously served on

the secretariat from April 1954 to January 1955 after a two-year tour as ambassador in Moscow. Constantin Pirvulescu, aging and reportedly ill, was replaced on the politburo by Maurer. Pirvulescu also lost his post as chairman of the party control commission and was demoted to the chairmanship of the auditing commission. 25X1

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GERMAN-FRENCH RELATIONS

The strong rapport between Chancellor Adenauer and President de Gaulle evidently continues, and there will probably be no significant change in the present French-German relationship as long as Adenauer heads the Bonn government. At lower levels in the German capital, however, resentment against Paris has recently been aroused by such developments as French stalling on requests for easing some of the Western European Union restrictions on German rearmament.

Adenauer publicly praised De Gaulle's firmness toward Khrushchev at the summit conference and later greeted with enthusiasm the French President's speech of 31 May affirming support for European integration. Adenauer praised especially De Gaulle's advocacy of the eventual formation of a European confederation--one of the German chancellor's key objectives.

Bonn officials are gratified by progress toward creating training and supply facilities in France for the German armed forces. The Germans have promised greater cooperation with the French in the field of military research and production, beginning with such projects

as the "European tank" and the Transall military transport plane. Bonn's satisfaction with these aspects of French-German relations may have been a factor in its crackdown in early June on Algerian rebel activity in West Germany.

On the other hand, evidence of apparent weakening of French support for certain aspects of Bonn's role in Berlin will be disturbing to German leaders. Within the past week, France has indicated objections to the holding of a session of the West German parliament in West Berlin in September and to the official visits of the federal President to the city. Bonn Defense Ministry officials are also increasingly irritated over French stalling on their request for a partial lifting of Western European Union treaty restrictions to permit German construction of warships larger than 3,000 tons and the production of influence mines.

These French actions, coupled with De Gaulle's virtual acceptance of the Oder-Neisse frontier and implied French indifference to German reunification, are bolstering the opposition in Bonn to the present pro-French policy.

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STUDENT AND LABOR UNREST IN SPAIN

Both the Franco regime and some Spanish student leaders have seen in the recent disorders in Turkey, South Korea, and Japan a possible example for Spain. Student agitation in Madrid caused the regime considerable trouble in early 1956, but most student groups are at present ill prepared for such action. The main issue of the 1956 disturbances--control of student activities by Franco's political organization, the Falange--no longer exists, and most student groups now are divided over questions relating to Spain's political future. Other opposition groups also are affected by deep internal cleavages.

The government appears determined to crack down on any outbursts. Franco still enjoys the active support of army and church leaders, and he has at his disposal tough and well-organized security forces. Although there is little popular enthusiasm for the regime, most Spaniards, with the exception of the younger generation, are still deterred from action against it by memories of the civil war.

A more likely difficulty for Franco in the next few months is extensive labor trouble. The American Embassy in Madrid believes that the prolonged business stagnation which has accompanied the eco-

nomie stabilization program inaugurated in July 1959 could cause an explosive situation, perhaps by fall. Despite the success of the program's first stage--the fight against inflation--the purchasing power of workers has diminished through elimination of overtime and incentive pay, reductions in the standard workweek, and loss of secondary employment.

The number of jobless has doubled in the last year to 300,000, most of them ineligible for the limited unemployment insurance recently introduced. Businessmen, faced with lower production and sales, increasingly resent the government's reluctance to permit cost trimming through the layoff of surplus employees.

The regime has given some indication that it will move to stimulate greater industrial output by lifting most economic controls, including restrictions on private investment, and by improving industrial production techniques. Some cabinet members, however, oppose further liberalization of the economic policies, and should they succeed in stopping such moves, labor unrest in the coming months may reach a point where fear of reprisals by employers will no longer inhibit large numbers of workers from resorting to strikes.

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PART III**PATTERNS AND PERSPECTIVES****KREMLIN POLITICS**

In recent years, particularly since 1957, it has become conventional to speak of "Khrushchev's Russia" and "Khrushchev's policy" as though, as in Stalin's day, the two were virtually synonymous. There may be some oversimplification in this equation, but there is no doubt that Khrushchev has come to occupy a unique niche in a system which has never functioned for long without some form of autocracy. Since he banished the "antiparty group" and Marshal Zhukov in 1957, there has been every sign that Khrushchev's power has grown, not diminished.

Khrushchev not only heads both the party and government but has insisted, where it has suited him, as during his US visit, on being regarded as head of state. It would be hard to find an instance where he has not offered himself as the only authentic spokesman on major Soviet policy or evidence that he is not also the principal architect of policy. The "cult of Khrushchev" has not reached the level of the Stalin adulation, but it has grown uninterruptedly. There are few issues of *Pravda* not dominated by his name and likeness, and invocations of his name as the prime exponent of the party's wisdom are sprinkled liberally through the proceedings of party congresses, central committee plenums, and Supreme Soviet meetings, including the latest in early May.

The agricultural conference which took place recently in Moscow brought a fulsome panegyric from the minister of agriculture: Successes claimed for Soviet agriculture, he said, "came as a direct result of the correct Leninist policy of the

party's central committee. All this is to the personal credit of Nikita Sergeyevich Khrushchev, whose exceptional energy, profound understanding of agricultural production, close contact with the masses, wonderful ability to select from life everything that is progressive, to support new talents, and whose unbending attitude toward all manifestations of dogmatism and backwardness constitute a model for everyone."

These cumulative accretions of power and prestige cannot be dismissed lightly when they occur in a rigidly hierarchical structure and when the manipulation of symbols is carefully controlled.

Presidium, Central Committee

Khrushchev's style of leadership--less monolithic and more freewheeling than Stalin's--unquestionably has its elusive features which have made it difficult at times to say with complete confidence that his command is unshakable. It has been said many times that the scales of coercion and persuasion have been tipped in the latter's favor, that under Khrushchev the regime has sought, wherever possible, to obtain the freely given support of the population and genuinely to broaden its base of power.

In the upper reaches of the party, this policy has been expressed in such forms as the suspension of political executions and the regular convocation of the central committee. Some experienced Western observers have, indeed, been convinced that there is real meaning in such Kremlin slogans as "the return to Leninism," "collective leadership," and the "democratization of party life."

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Ambassador Bohlen, for one, argues that "the structure of power in the USSR today is more like Lenin's than Stalin's time, in that Khrushchev must defend his policies rationally before his colleagues, using persuasion and pressure but not diktat." Others go further and assert that the central committee now has a direct and effective voice in policy. However, while there is some circumstantial evidence in support of these interpretations, there are difficulties to accepting them without reservation.

The central committee did, of course, play a crucial role in June 1957, when Khrushchev, outvoted in the presidium, called on it to save his political life. Since that time the committee--its composition largely unchanged--has met 11, possibly 12 times. It has been consulted or advised most often in connection with the regime's agricultural and industrial programs, but it has also been called on to sanction changes in the party's key bodies--the presidium and secretariat. At its most recent meeting, on 4 May, it presumably also heard a report on Moscow's pre-summit position and the U-2 case.

Within the ranks of the central committee there are many individuals--regional party leaders, industrial bosses, top-drawer Foreign Ministry officials, and military leaders--

whose opinions undoubtedly count for something. For how much is, however, uncertain. Apart from the 1957 showdown and the plenum of last December which produced some signs of possible differences of opinion over agricultural policy, there is nothing to suggest that the central committee has diverted the presidium from a preordained course. Insofar as changes within the presidium

USSR: PARTY PRESIDUM

7 MAY 1960

FULL MEMBERS	AGE	OTHER CURRENT JOBS
Khrushchev	66	Party First Secretary; Chairman RSFSR Bureau; Premier, USSR
Aristov	56	Deputy Chairman, RSFSR Bureau
Brezhnev	53	Chairman, Presidium, Supreme Soviet, USSR
Furtseva	49	Minister of Culture
Ignatov	59	Deputy Premier, USSR
Kosygin	56	First Deputy Premier, USSR
Kozlov	51	Party Secretary
Kuusinen	78	Party Secretary
Mikoyan	65	First Deputy Premier, USSR
Mukhitdinov	42	Party Secretary
Podgorny	57	Party First Secretary, Ukrainian Republic
Polyansky	43	Premier, RSFSR
Shvernik	72	Chairman, Party Control Committee
Suslov	57	Party Secretary
Voroshilov	79	Member, Presidium, Supreme Soviet, USSR
CANDIDATE MEMBERS		
Kalnberzin	66	Chairman, Presidium, Supreme Soviet, Latvian Republic
Kirilenko	53	Party First Secretary, Sverdlovsk Oblast
Korotchenko	65	Chairman, Presidium, Supreme Soviet, Ukrainian Republic
Mazurov	46	Party First Secretary, Belorussian Republic
Mzhavanadze	57	Party First Secretary, Georgian Republic
Pervukhin	55	Ambassador to East Germany
Pospelov	61	Member, RSFSR Bureau

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ranks are concerned, there are indications that some, if not all of them, were "cut and dried" well before the committee met.

The presidium must still be considered the most likely ground for any important policy conflicts. As now constituted, it remains heavily weighted with men brought in in June 1957, at a moment when Khrushchev presumably had both the desire and the authority to put together a reliable company. He subsequently rid himself of the vexatious Zhukov and the disloyal Bulganin.

There is certainly no individual or group within the presidium today which, in terms of stature and known disaffection from Khrushchev, fits the mold of the "antiparty group." There were indications, it is true, that Suslov, who cannot be considered a hand-picked Khrushchev appointee, was lukewarm about the abolition of the Machine Tractor Stations in the spring of 1958. Mikoyan has occasionally given signs that he does not hold Khrushchev in complete awe and that he can, on occasion, stand on his own two feet.

The other members of the presidium--some of them presumably fairly strong individuals with long experience in the rough-and-tumble of party politics--may very well be much more than voiceless puppets, but if they have had misgivings about Khrushchev's leadership and policy, they have succeeded very well in concealing them.

There is no reason to doubt Khrushchev's assertion that the presidium meets at least once a week and that questions on which unanimity is lacking are submitted to a vote. It is, of course, impossible to know how the more difficult problems have been ironed out

within this body and whether heated debate has arisen over any of them, although it can be supposed that there is an area within which expression of opinion is both permissible and desirable.

When Khrushchev told Averell Harriman that "Kirichenko would be harder on you" than certain others, he plainly implied that there was some kind of spectrum of opinion among Soviet leaders. The display of animated discussion among several presidium members at a British exhibit in Moscow on 2 June was also, at the very least, a sign of fairly vigorous "give-and-take."

The difficulty, of course, is in arriving at some estimate of the limits which apply to this process at any given time. The fate which befell Zhukov, Kirichenko, and perhaps now Mikoyan should serve as a caution to Khrushchev's Kremlin colleagues that there is a point of independence beyond which they cannot safely go.

Mikoyan's Status

When the U-2 went down near Sverdlovsk, the top members of the Soviet party were in the midst of May Day festivities--the bulk of them in Moscow, but some in various provincial centers. When the presidium contingent in the capital lined up atop the Lenin-Stalin mausoleum, Mikoyan was well below his usual place in the "pecking-order." A few days later an issue of the central committee journal Party Life appeared with an article which omitted Mikoyan's name from the roll of leaders who had contributed important services to the Red Revolution in Azerbaydzhan. Similar articles published in previous weeks had given Mikoyan his conventional due.

On 8 May Mikoyan dropped out of sight. It was reported in Moscow that he was vacationing,

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and he was subsequently identified at a Black Sea resort, where he apparently remained for a month. He was, therefore, presumably absent from Moscow for several days preceding Khrushchev's departure for Paris and for some time following his return--during a period, in other words, when deliberations with respect to the summit and its aftermath must have taken place.

Since Mikoyan's return to Moscow, an effort seems to have been made to stifle Western speculation that he is on the way out, and it may be some time before we know whether he has succeeded in stabilizing his position or will follow a gradual descent. Whichever is the case, the signs are fairly clear that at some point, things soured for Mikoyan, who, probably for good reason, has been regarded as one of the most consistent and influential proponents within the Kremlin of the "peaceful coexistence" line.

full membership. Simultaneously, and perhaps more importantly, the secretariat--often considered the most vital of the power levers in Khrushchev's hands--was altered drastically. Although Kozlov was added, its membership was reduced by half--from ten to five. A further set of moves, which flowed directly from these, was taken during the Supreme Soviet session which followed.

The two men removed from the presidium, Kirichenko and Belyayev, were erstwhile Khrushchev protégés--the Ukrainian Kirichenko, in particular, had once been reckoned as the closest of Khrushchev's personal and professional associates, and for a time he seemed to rank second only to Khrushchev in authority within the party. Signs of his decline, capped by his appointment to a provincial party post in January 1960, had been accumulating for nearly a year, however.

Belyayev's disgrace had been signaled at the December 1959 meeting of the central committee when he came under personal attack from Khrushchev for his leadership in Kazakhstan, where the New Lands had produced a disappointing harvest and where there had also been disturbances among construction workers. He, too, was soon thereafter farmed out to a lesser provincial post. The action taken against Kirichenko and Belyayev in May was, then, foreshadowed, and probably decided within the presidium, well in advance of the 4 May plenum.

Party Reorganization

The 4 May plenum would have been a notable one, whether it took place in the midst of the U-2 furor or not. The changes which it effected were far-reaching--two full members were removed from the presidium and three candidates were raised to

The other changes add up, however, to a complex organizational shift. The positions of presidium members on other key bodies have been radically juggled. Brezhnev has replaced Voroshilov as titular president and has left the secretariat. Ignatov and Furtseva have also been removed from the secretariat, Ignatov becoming a deputy premier and Furtseva minister of culture. Both Aristov and Pospelov were

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released from the secretariat in order "to concentrate on work" in the central committee's Bureau for the Russian Republic, of which they were already members.

The three additions to the presidium's full membership fill the gaps left by the displacement of Bulganin, Kirichenko, and Belyayev, and, in the person of Podgorny, give the Ukraine continued representation at the party's top level. Polyansky, the premier of the Russian Republic, is, at 43, a rising young star. Kosygin, who has also been named a first deputy premier of the USSR, is an economic specialist. On the basis of what is known about them, both men would have to be classified among the more moderate and flexible of the Soviet leaders. With his entrance into the secretariat, the focal point for manipulation of the party apparatus, Kozlov appears to have gained the inside track to succeed Khrushchev.

The secretariat as now constituted is in any case a quite different body in both size and structure from what it had been since 1957, when it was enlarged and transformed in connection with the "anti-party" purge. Unless subsequent additions are made, it is difficult to foresee continuation of the system under which the various secretaries are responsible for supervision of the whole spectrum of party interests, such as cadres, economic management, and ideology.

Nor is there any longer a situation in which members of the secretariat constitute a majority of the presidium--before 4 May, nine of the 14 full members of the presidium were also members of the secretariat. It has been conjectured that this change may have weakened Khrushchev's hold on the presidium by depriving

him of a solid core of secretariat support, but this would seem to be a circular argument, for it presupposes that the old secretariat, in part at least, must have voted for its own dissolution.

The secretariat now is composed, in addition to Khrushchev and Kozlov, of Suslov, Kuusinen, and Mukhitdinov. Often regarded as the central figure in a possible "Stalinist" opposition or a "China lobby," Suslov has, in recent years, been mainly concerned with the counseling and direction of Communist parties outside the Soviet Union. His reputation as an eminence grise rests more on his rather grey, ascetic-appearing visage and personality than on what is actually known of his views and influence.

Kuusinen, the 78-year-old Finn, is an old Comintern hand who appears to serve now mainly as a senior, experience-encrusted draftsman of ideological tracts. His most recent public assignment was the delivery in April of a Lenin anniversary oration which took broad issue with the current ideological positions of the Chinese Communists. The last of the trio, Mukhitdinov, is a 42-year-old Uzbek who has dealt almost exclusively in the past in Soviet relations with underdeveloped areas and has yet to give evidence of serious political weight.

The reorganization probably stemmed in good part from the underlying problem of the succession to Khrushchev. Kozlov has been placed in a post from which he may be able to set himself up as the recognized second in command. At the same time, Khrushchev may have lessened his own dependence on the secretariat, whose disproportionate representation on the policy-making presidium was established at a time when Khrushchev had just won an important, but a close, victory.

The core of lieutenants who oversee the major areas of

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policy implementation seems to have been dispersed to a greater number of points in the command structure, but Khrushchev alone is a member--and head--of the three major operational bodies--the secretariat, the Bureau for the RSFSR, and the government.

A number of questions remain in the trail of the reorganization which perhaps only time can answer. Why was the deck reshuffled at this particular time? How will his colleagues view Kozlov's apparent advantage? Will people like Brezhnev, Aristov, and Ignatov feel that they have lost standing? Has Brezhnev simply been "kicked upstairs," or will he be able to transform the "presidency" into a position of greater power and prestige than it has been in the past? Has the Bureau for the RSFSR been effectively subordinated to the secretariat by the removal of Aristov and Pospelov from the latter, or will it become, in practice, a coordinate body with largely autonomous powers in the key Russian Republic?

High-Level Discussions

There now is little evidence that a severe rift has opened up among the leaders or that a dissident faction, using the U-2 case as a weapon and with the support of the Soviet military (the role of the military in Soviet politics will be treated separately in a subsequent issue of this publication), was able to "gang up" on Khrushchev and force his hand in Paris.

If such an attempt had been made, it is certain Khrushchev would have made a fight of it, and some of the sparks of conflict would probably have been visible. The central committee meeting, it is true, had not been publicly announced in advance, as had the two foregoing plenums and one upcoming this July, a circumstance which has stirred speculation of a hasty convocation of the committee.

Against this possibility, however, is the fact that on 8 April the American Embassy in Moscow reported that there was a rumor in the Soviet capital of an impending plenum which would deal with changes in the presidium. The changes mentioned were among those which were, in fact, made on 4 May. When the embassy report was received, it was assumed that the most likely date for a plenum was between the May Day holiday and 5 May, the latter being the scheduled opening date of the Supreme Soviet.

The central committee met for only one day--time enough to approve in an uncomplicated fashion the organizational changes and to hear the regime's exposition of the U-2 case and its proposed tactics leading to the summit, but hardly enough for real fireworks on either point.

There were, however, virtually no signs in the days following the central committee meeting of the kind of full-dress,

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high-level huddle which could be expected if deeply divisive issues were outstanding. None of the full or candidate members of the presidium not normally resident in Moscow is known to have been there between 7 May, when the Supreme Soviet dispersed, and 2 June, several days after Khrushchev's return from Paris. Khrushchev himself left Moscow for Paris on 14 May, two days ahead of his earlier schedule--hardly a sign that he was in an embattled position at home.

Post-Summit Political Outlook

Developments since the summit seem to indicate that Khrushchev still holds the upper hand over any elements, either in his own party or elsewhere in the bloc, which might seriously object to his conduct of Soviet policy. The Soviet propaganda mechanism has labored diligently since then to create the impression that the Khrushchev policy line will be preserved. The running debate with the Chinese suggests that Moscow is in no mood to surrender to "leftist" pressures, wherever they might arise. The stance taken by high Soviet officials--including Brezhnev, Furtseva, and Marshal Bagramyan--in their post-summit encounters with American diplomats has been unfailingly moderate, suggesting that, despite Khrushchev's public threats and revilements, Moscow has not yet shifted emphatically toward a "hard line."

Despite Khrushchev's declared moratorium of six to eight months, there is little question that the summit outcome which he has looked for during the past two years has, for the moment anyway, eluded him. In some eyes, perhaps, and certainly in those of the Chinese Communists, he has been made to look foolish. It is at least conceivable that his prestige within his own party and within the bloc has been seriously tarnished.

Unquestionably the maintenance of the desired level of economic and technological progress and a suitably impressive military posture, the fulfillment

of the Soviet consumer's expectations, the preservation of ideological discipline at home and within the bloc, and the pursuit of Moscow's political and economic offensive in the outside world place heavy demands on the skill and energy of the Soviet leaders. Whatever the strength of his position, Khrushchev will not succeed automatically.

Moreover, Khrushchev's health and durability remain a question mark. There is every indication that the problem of succession will become increasingly insistent. The steps taken at the May central committee plenum may point the direction, but they do not solve the problem. Rivalries and maneuvers at the presidium level and below are bound to continue, with results Khrushchev himself may not be able to foresee.

It is impossible to say at this point whether the summit collapse is viewed in Moscow as a setback to Soviet policy or merely as a disappointment and more than compensated for by post-summit developments affecting the American position in Korea, Turkey, and Japan. Even if the former is indicated, however, serious damage to Khrushchev's position is not a certainty. Stalin, of course, survived much worse--the die-hard opposition to collectivization, the early World War II defeats, and the failure of the Berlin blockade, to name a few. Khrushchev, too, stubbed his toe badly in 1956 with "de-Stalinization" and Hungary, but managed to remain on top.

In such a situation he has, in the past, characteristically followed up with a new policy initiative--in 1957 it was the reorganization of Soviet industrial management--and we may again see him attempt to regain his momentum.

It seems safe to assume, in any event, that any attempt to engineer his removal at this juncture would require a careful series of steps, and that even if things are worse for him than the evidence suggests, at least some of these moves should be visible.

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THE INDUSTRIAL CONCENTRATION ISSUE IN WEST GERMANY

West German business in recent years has been characterized by the growth, in a rapidly expanding economy, of large industrial and manufacturing concerns with a strong tendency toward concentration. With sales in 1958 close to \$800,000,000 each, the Krupp iron and steel and the Siemens electrical goods industrial empires lead all West German companies, followed closely by the Daimler and Volkswagen auto-producing firms.

been a decided trend toward the reconcentration of industrial giants in West Germany. The old Ruhr firms of Mannesmann, Kloeckner, Hoesch-Werk, and many others have each recombined their holdings, bringing coal, steel, and engineering together once again.

During a parliamentary debate on concentration last October, Economic Minister Erhard stated that the iron and steel industry controlled roughly half of West Germany's hard-coal production, and that the electric power companies controlled 90 percent of the country's brown-coal output. He also disclosed that the number of firms with an annual turnover of more than \$6,000,000 had increased during the past few years, while the number of small- and medium-size firms had remained constant.

In view of the traditional practice among German banks of holding large portions of their assets in the form of equities--which often amount to a controlling interest in the companies concerned--the reconcentration of the German commercial banking system has had special significance. Although greater diversification of banks' portfolios as a result of the Allies' deconcentration reduces prospects that banks may gain control of entire industries, the re-establishment of the former "big three" banking groups tends to foster the integration of German industry.

Thyssen-Rheinrohr Merger

Recently the consolidative process experienced a setback when the August Thyssen Huette and the Phoenix-Rheinrohr steel companies scrapped their plans for a merger rather than submit to control of investment levels by the European Coal-Steel Community (CSC).

25 LEADING WEST GERMAN FIRMS**ANNUAL SALES FOR 1958**

Krupp	\$793,095,000
Siemens	785,714,000
Daimler	750,000,000
Mannesmann	703,810,000
Volkswagenwerk	647,381,000
Gutehoffnungshuette	647,381,000
Rhein Stahl	634,524,000
Gelsenkirch. Bergw.	600,000,000
BV-Aral AG, Bochum	509,524,000
Dt. Unilever-Gruppe	502,381,000
Farben Bayer	478,571,000
Handelsunion	476,190,000
AEG	465,476,000
Badische Anilin	459,524,000
Esso AG	453,810,000
Farbwerke Hoechst	449,762,000
Aug. Thyssen-Huette	422,857,000
Salzgitter-Konzern	414,048,000
Hoesch	385,476,000
Deutsche Shell AG	363,571,000
Phoenix-Rheinrohr AG	357,619,000
Rheinisch-Westfaelisches Elektrizitaetswerk AG	350,000,000
GEG Grosseinkaufs-Gesellschaft Deutscher Konsumgenossenschaften	344,524,000
Karstadt	342,143,000
Kloeckner	340,476,000

Automobile and automobile-servicing firms, such as petroleum enterprises, have forged ahead remarkably in size and importance.

Trend Toward Reconcentration

Despite the antimonopoly and deconcentration policy pursued by the Western allies in the administration of Germany after World War II, there has

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This decision, plus the long-standing effort of the CSC to break up the Ruhr coal industry's cartelized sales system, has caused considerable resentment among German industrial leaders, who accuse the CSC of discriminating against the Federal Republic and making "political" decisions. The fact that the two leading West German political parties, the federation of German labor unions, and the government in Bonn all favored the Thyssen merger has increased bad feeling toward the CSC and strengthened opposition to it in West Germany.

Krupp Sale Order

According to a 1953 agreement with the Western allies, Alfried Krupp agreed to sell the coal, steel, and iron-ore portions of his empire. Although the Bonn government originally approved this agreement, many West German officials now feel that the forced sale of these properties would not only be contrary to the whole trend of industrial organization in the Ruhr but harmful to German prestige and inimical to the interests of Chancellor Adenauer's ruling Christian Democratic party (CDU).

Opponents of the sale believe that an escape clause can be found in the provision that the properties should be sold for a "fair price." Since there have been no German takers and the prospect of foreign ownership of such a vital segment of German industry is not welcomed by either business groups or the government, Krupp himself reportedly feels the Allied sale order--now postponed until 31 January 1961--will never be implemented. However, the international commission overseeing Krupp's holdings is empowered to do no more than postpone the effective date, and only the

Allied governments can cancel the sale order.

In the meantime, Krupp has built up huge manufacturing and engineering interests and has gradually regrouped his separated coal and steel holdings into a single firm, the Huetten and Bergwerke Rheinhausen Company.

Pro and Con of Concentration

Many politicians, economists, and government officials have an ambivalent attitude on the desirability of concentration in view of the current



KRUPP

trends in technology, production, and marketing. The formal Bundestag debate last October on the subject was inconclusive, leading to appointment of a special fact-finding commission to try to find reliable criteria for determining the desirable degree of concentration.

The government's policy thus far has consisted mainly of vague general statements. Adenauer said in 1958 that economic concentration should not exceed technical necessities and called on bankers not to support any mergers other than those "necessary for economic reasons." Erhard has promised help for small businesses and has called

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on business leaders for voluntary restraint.

Many business interests, however, argue that large combines are necessary for efficient operation and essential costly research and to meet increasing competition in the growing mass markets of the European Economic Community (EEC). They contend that while there may be less competition among companies in the same industry, there is more competition among industries--as for example, oil versus coal, or steel versus other metals and plastics.

A survey prepared by the Frankfurter Allgemeine Zeitung in November 1959 comparing German with US industrial firms noted that 45 US firms are larger--in annual sales--than Krupp and Siemens, the two leading German firms. Furthermore, US industrial giants like General Motors report sales four and a half times as great as the tenth largest US firm, while in Germany the top firm's sales are only 1.6 times as large as the one in tenth place.

Anticartel Law Ineffective

The anticartel law passed by the German parliament in July 1957 reflects the equivocal thinking of Germans on this question. Although outlawing cartels in principle, the law has so many exceptions, exemptions, and permitted agreements that it is more permissive and regulatory than prohibitive. Also, certain aspects of the Federal Republic's tax system, such as privileges extended to interlocking companies and the form of turnover tax used, tend to encourage concentrations.

Of the cases initiated by the Federal Cartel Office during its first year, slightly more than one quarter were discontinued, slightly less

than two thirds are still being examined, and none have been prosecuted. Of the approximately 100 applications for approval of cartels, 14 were allowed and 74 are still being examined.

In its first annual report, the cartel office complained that it lacks the necessary authority to influence the concentration process, and that it generally cannot intervene against mergers. The cartel law requires only that the office be informed of mergers giving one firm 20 percent or more of the market for a product. The report asserted, however, that the enactment of the federal law has had at least a retarding effect on cartel formation. At any rate, West Germany's anti-cartel legislation is generally more effective than that of its EEC partners. Moreover, enforcement machinery has not yet been set up to implement the anti-cartel provisions of the Common Market treaty itself, despite the wave of mergers throughout the Common Market since 1958.

Influence in Politics

Industry has a powerful lobby for economic matters, and the contributions of business groups are an important source of funds for the CDU. Nevertheless, left-wing critics can adduce little evidence for their charges that the CDU is the "tool of big business," and that the new industrialists and bankers have come to dominate German politics in the Federal Republic as they allegedly did in the days of the Weimar Republic.

Although some industrialists, such as Krupp, exert pressure on the government for reducing restrictions on trade with the bloc and try to discourage too close ties with France and the EEC, they have thus far failed to exert a

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controlling influence on Bonn's foreign policy. After the disappearance of Adenauer's strong leadership, however, big business may be able to increase its influence.

Outlook

Despite the high degree of reconcentration of industry, Erhard's liberal economic and trade policies have encouraged fairly strenuous competition in West Germany, and some economists feel this may have been a key factor in the exceptionally high rate of growth in the

country's economy. As the Common Market becomes fully effective, increasing competition is likely to accelerate the process of economic concentration in West Germany and throughout the EEC. Bonn is not likely to adopt effective measures against this, and the EEC will eventually face the problem of determining whether West German businessmen are achieving harmful concentrations of economic power or are merely rationalizing their operations in anticipation of the EEC's market of 160,000,000 consumers.

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ECONOMIC ASPECTS OF CHINA'S COMMUNES

The rural communes in China--as set forth originally in late summer 1958--were one of the most ambitious social experiments of modern times. They had a unique potential for controlling the work and life of the peasants, and the tendency at the outset was to exercise this potential to an extreme degree. After a year and a half of experience, however, the economic responsibilities of the commune have been narrowed and the more radical social innovations moderated. A few communes with a relatively strong economic base and strong leadership retain some of their early powers, but most are a far cry from the compelling economic and social force they were intended to be.

Real authority in rural areas has shifted back to the production brigade--that is, to the pre-commune collective farm--and present production procedures differ only slightly from the Soviet and pre-commune

Chinese system. There is still a level of administration in China's countryside called a commune--and the use of the term is fiercely defended by Peiping--but it is in reality little more than a loose confederation of collective farms combined with local government.

Its responsibilities closely resemble those of the old township government, which, according to a high party functionary, also formed the "unit of state power at the basic level" and played a "leading role in industry, agriculture, trade, education, and military affairs at that level."

Image and Reality

There is a wide gulf in many respects between the actual commune and the image of it drawn by Peiping's propagandists. For example, the Chinese Communists assert that the commune, unlike the collective, organizes both production and

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lives of all members. In actual practice this is not true.

Similarly, they assert that the commune--an average of 5,000 households and 10,000 acres--is bigger than the collective farm

women to the labor force have not been great.

The Chinese claim the commune is a better instrument for the mobilization of rural capital. Increased capital accumulation on the farms, however, really depends on increased production and/or reduced consumption, not simply on the organizational forms adopted. The commune seems little better in this respect than the old township government.



Statue symbolizing communes' "all-round development" of agriculture.

and therefore better. In fact, the commune was found to be too large and unwieldy an economic unit to be run efficiently with the managerial personnel available. Even the Soviet collective farm, with only half the acreage and one twentieth the population of a Chinese commune, seems too large for maximum efficiency.

The Chinese Communists state that the commune makes more effective use of the rural labor force. In normal situations, however, the commune has to seek the agreement of lower echelons--the production brigades and production teams--before it can hire labor for its own projects. The Chinese Communists also assert that the commune has "released" large numbers of women for productive labor, but actual additions of

Peiping maintains that the commune industrializes the countryside. However, recent figures on employment and output for commune industry are of the same order of magnitude as those recorded for the predecessors of commune industry--the rural handicraft workshop and other subsidiary enterprises. Finally, the Chinese assert that the communes organize collective consumption, but in practice subordinate echelons perform this function.

Ownership in Today's Commune

The August 1959 resolution on communes formalized the decentralization of management and business activity and was the death knell of the commune as a potent economic force. Since then, ownership on China's farms has been officially described as being on three levels--the commune, production brigade, and production team. All three own something, but ownership at the brigade level is by far the most important, and, as long as this is so, the brigade, and not the commune, will direct the work and life of the peasant.

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The brigade owns the principal means of production--land, tools, draft animals, and labor--as well as small workshops. It can sell its own marketable produce. The commune owns only the industry and other enterprises it has developed or which were turned over to it by the state, the large farm machines it has obtained from the state, and the funds it has accumulated from its own sources or received from the state. Obviously, then, it owes much of its economic existence to state dole.

What it owns is admittedly only about 10 percent of the whole, but it is important to the authorities, since without it "there would be no commune." Individual households still own their houses, bedding, furniture, and some trees and domestic animals. Members of households can also cultivate small plots of land in their spare time.

This three-level system of ownership, the party explains, is necessary because the economy at the commune level is "fundamentally rather weak," because the production brigades differ widely from one another, and because the peasants are not yet ready to accept the changes that a shift of ownership to the communes would entail. Peiping intends to move gradually to collective ownership at the commune level and from there to eventual ownership by all the people--state ownership.

The regime says the two transitions can be made only when conditions are ripe, lest incentives in the more prosperous units suffer, as apparently happened in the premature transfers of 1958. A high party official says conditions will be ripe when: income per capita reaches the equivalent of \$60-\$80 (per capita income in 1959 was the equivalent of \$34); the poor brigades catch up with

the rich ones (in Kiangsi in 1959 per capita income in a poor brigade was less than \$20); and mechanization reaches certain proportions. If these requisites are retained, the shift in ownership will take many years.

Distribution in Today's Commune

A key Chinese Communist farm official has observed that "whoever owns the means of production distributes the products." Under this rule, each of the three levels of ownership keeps accounts on its own undertakings, but, since the brigade owns the principal means of production, it distributes the major share of the income. The earlier attempt by some communes to equalize income among their production brigades, which in effect penalized the superior ones, has been dropped.

Once a year, or after each harvest, the brigade accountant adds up his brigade's income. From this total is deducted an amount for payment of taxes to the state (usually about 7 percent), for investment in the brigade's and the commune's reserve and welfare funds (usually about 8 percent), and for the costs of production (usually about 25 percent). The rest is earmarked for personal consumption. The brigade then "makes arrangements" for distributing this portion among the individual households.

It is still official policy to divide personal income between wages and the so-called "free supply," with wages taking up the major portion. An individual's income is calculated on the basis of work performed, although the total output of the brigade and team of which he is a member also affects the amount due him. From this total is deducted a mess-hall fee, which is used to defray the costs of the "free supply" item. The "free supply" system actually operates to the

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detriment of the young able-bodied worker with few or no dependents--a point of difficulty which has been acknowledged by Mao Tse-tung.

Collective Consumption

The arrangements for collective living are still the most distinguishing feature of the post-commune countryside, but these arrangements are no longer the direct responsibility of the commune. The strongest existing feature of collective living--the messhall--now is financed and managed by the brigade or team, except for messhalls serving personnel at the commune level. The same is true of nurseries, old people's homes, and other such social service functions as have survived.

In recent months the party has been putting increased stress on messhalls, implying that the future of the communes depends on the success of this aspect. It is apparent that, after almost two years, messhalls are far from being established institutions. They show wide differences in form and quality. Some are open only during busy seasons, while others do no more than cook rice which is then consumed at home.

In Kwangtung a party conference was told that no more than 40 percent of the province's messhalls could be called successfully run. Some 45 percent were said to be in

poor shape, unable to supply an adequate diet. A third category, covering some 15 percent, was said to "exist in name but not in deed." Some officials in Peiping have made the same point regarding the commune as a whole. On several occasions the official People's Daily has found it necessary to



Commune-owned tractors

insist that rural official eat at the messhalls.

In the messhalls the regime may well have a tiger by the tail. They were and are unpopular, but considerations of prestige make the regime unwilling thus far to give them up. Yet the shortage of food makes it impossible to run them well enough to gain wide and willing acceptance.

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A Future for Rural Communes?

The regime remains committed to the commune as the best form of basic-level organization for the "transition to Communism" and for Communism itself. It probably intends for the communes to recover some of the ground lost in the past year and a half, although it will probably try to side-step hasty or radical moves with their attendant economic risks. The regime's program to mechanize and modernize agriculture may turn out to be the economic salvation of the communes. They have been given the key role in the introduction and ownership of large, modern machinery, and they are to have an important part in agricultural schooling and in experimental and extension work.

The leaders in Peiping are apostles of the doctrine of "uninterrupted revolution," and this doctrine includes the concept that the forms by which production is organized need constant adjustment. Most Chinese Communist leaders apparently believe that future adjustments can be worked out within the framework of the commune. Some have suggested, however, that it may be necessary "to bring into full play the advantages of state farms" and create more such farms.

In at least three provinces, state farms have actually absorbed parts of some communes. The most recent example--in Kwangtung--occurred earlier this year when a number of brigades were taken from a commune, formed into a state farm, and placed directly under the control of the county government. In one case the cadres explained that the shift was an experiment and if successful would be gradually extended.

It is unlikely, however, that such experiments will be

pushed beyond limited areas for specialized purposes--such as brigade-size, state-owned units growing certain produce for the urban markets. The leaders want an efficient farm organization which will increase production, curtail consumption, and thus give the state the largest possible return. The state's preference for large comprehensive organizations must be balanced against the resources in managerial personnel, machinery, and wealth on hand. At present and for a long time in most areas of China, this will call for a unit about the size of a production brigade.

Urban Communes

Urban communes, which in mid-May included 42,000,000 persons, are even less organized than their rural counterparts. In their present form they have had little discernible effect on the economy of the country, and the regime appears to be taking pains to maintain this situation. The urban commune does not take control over the fundamental economic institutions of the city--utilities, state-owned factories, banks, and wholesale stations.

Many urban residents have long been thoroughly socialized through "company" messhalls, stores, and housing.

This year urban communes are supposed to double the value of their industrial output; however, this will still be less than 2 percent of the national total. Their main industrial activity seems to be subcontract processing for state plants and producing sundries for the local market. To a considerable extent, this activity represents the recovery of urban handicrafts, which were all but swept away by the 1958 "leap forward."

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Initial reports suggest that the Chinese are having as much trouble running the new messhalls in urban communes as they are in rural areas. There have been a few instances of shifting housing so that those who work together can live together, but these efforts have not been widespread, and the regime says it will not push them very hard.

The urban commune, like the rural, is to be a permanent feature of the economy. The regime promises that it will be instrumental in the creation of new socialist cities, that it will become a unified organizer of production, exchange, and distribution, and that it will combine industry, agriculture, trade, education, military affairs, and government administration at the basic level. As in rural areas, however,

this is likely to be a long and difficult job.

Ideological Aspects

Peiping still clings tenaciously to the commune concept and from time to time advances some of the original ideological claims made for the communes --e.g., the claim that in them the Chinese leaders have found a unique organization which contains the seeds of Communism, will become the basic social unit in the Chinese Communist society of the future, and is applicable to other underdeveloped countries. For its part, the USSR has made it clear that it disapproves of the communes and rejects the claims made for them. Thus Peiping's insistence on their validity remains a serious matter at issue between the USSR and Communist China. 25X1

(Prepared by ORR)

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